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EC pushes for more environmental and social disclosure

by Richard Crump 17 Apr 2013

LARGE COMPANIES will be required to disclose more information about their environmental and social impact in annual reports, under changes to accounting laws proposed by the European Commission.

Companies with more than 500 employees will need to publish information on their policies, risks and results concerning the environment, human rights, anti-corruption, bribery and diversity on the boards of directors, the EC said.

"Companies that already publish information on their financial and non-financial performances take a longer term perspective in their decision-making. They have lower financing costs, attract and retain talented employees, and ultimately are more successful," said Michel Barnier, the EC's internal market and services commissioner.

Around 18,000 companies will be affected by the new law, compared to the 2,500 organisations that currently disclose environmental and social information regularly.
The proposed measure has been designed with a non-prescriptive mindset and will be low cost and not overly onerous for companies to implement. Disclosures may be provided at group level, rather than by each individual company within a group, while the proposal does not require full disclosure.

According to the EC, comprehensive reporting on social and environmental aspects costs a large company between €30,000 (£26,000) and €600,000 per year. Its proposal, it insists, will cost companies less than €5,000 a year, equivalent to less than €100m across the EU.

Richard Howitt MEP, who serves as the European Parliament's rapporteur on corporate social responsibility, welcomed the move as a "huge step towards promoting sustainable and accountable business".

"Today less than one in ten of Europe's large companies disclose this information but the blinkers can come off...for the remaining 90%. The law can play an essential role in incentivising environmentally sustainable companies and in rebuilding tarnished public trust in business," Howitt said.

The measure includes the ‘comply or explain' principle, whereby companies will not be required to have a boardroom diversity policy, but will have to explain if they fail to comply. In instances when they do not disclose information they deem irrelevant they will have to explain why.

Nigel Sleigh-Johnson, head of ICAEW's financial reporting faculty, said the ‘comply or explain' aspect is welcome but cautioned that disclosures in corporate annual reports should be aimed squarely at the needs of investors, not other parties".

"Additional information, if required solely for public policy reasons, should be kept out of the annual report. If the information is not bespoke and of relevance to investors, it will just lead to clutter and ‘boilerplate'," he said.

The EC proposal was announced on the same day that the International Integrated Reporting Council (IIRC), a group of some of the largest organisations and accounting firms, launched a consultation on the future of integrated reporting. The prototype reporting framework will allow the preparers of financial reports to integrate non-financial information, such as environmental and social economic costs, into financial statements.

Last week, the EC reached a deal with the European parliament to force large extractive companies to shed light on their dealings with national governments on a country-by-country basis. The agreement requires European companies to disclose full information on payments of more than €100,000 (£85,000) to governments in resource rich countries.